

Message Text

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ORIGIN EB-08

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DRAFTED BY EB/ORF/FSE:MVCREEKMORE:MW
APPROVED BY EB/ORF:SWBOSWORTH
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TREASURY:HJUNZ(SUBSTANCE)
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FM SECSTATE WASHDC
TO AMEMBASSY CANBERRA IMMEDIATE
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AMEMBASSY TOKYO IMMEDIATE
AMEMBASSY MADRID IMMEDIATE
AMEMBASSY STOCKHOLM IMMEDIATE
AMEMBASSY BERN IMMEDIATE
AMEMBASSY LONDON IMMEDIATE
USMISSION EC BRUSSELS IMMEDIATE
USMISSION OECD PARIS IMMEDIATE

C O N F I D E N T I A L STATE 083366

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: G-8 POSITIONS FOR CIEC ENERGY COMMISSION

1. PLEASE PASS THE FOLLOWING MESSAGE FROM CO-CHAIRMAN
STEPHEN W. BOSWORTH TO HOST GOVERNMENT OFFICIALS RESPONS-
IBLE FOR WORK IN THE CIEC ENERGY COMMISSION. OECD PASS
TO LANTZKE; EC BRUSSELS TO WILLIAMS; AND LONDON TO
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LE CHEMINANT.

2. AS WE DECIDED AT OUR APRIL 7 MEETING, I HAVE ATTEMPTED
TO SUMMARIZE BELOW OUR AGREED SUBSTANTIVE POSITIONS ON
THE KEY CIEC ENERGY ISSUES.

3. ADEQUACY OF SUPPLY. THE G-8 REQUIRES AS PART OF A

BALANCED SET OF RESPONSIBILITIES IN THE COMMUNIQUE THAT THE PRODUCERS RECOGNIZE THEIR "RESPONSIBILITY"(OR "CONTRIBUTIONS TO GLOBAL STABILITY AND GROWTH")FOR PROVIDING ADEQUATE SUPPLIES OF OIL AND GAS TO MEET WORLD ENERGY NEEDS. IN RETURN, THE INDUSTRIALIZED COUNTRIES WILL RECOGNIZE THEIR PARTICULAR RESPONSIBILITY TO USE ENERGY MORE EFFICIENTLY AND TO ACCELERATE THE EFFICIENT DEVELOPMENT OF ALTERNATIVE SUPPLIES IN ORDER THAT OIL AND GAS CAN GRADUALLY BE RESERVED FOR THOSE USES FOR WHICH

SUBSTITUTES ARE LIMITED OR UNAVAILABLE. THE POINT ABOUT GRADUAL RESTRICTION OF OIL AND GAS INTO PARTICULAR USES SHOULD BE STATED AS A FACTUAL ASSESSMENT RATHER THAN A POLITICAL OBJECTIVE. THE G-8 WILL SEEK TO GAIN ASSURANCE THAT PRODUCER SUPPLY RESPONSIBILITY IS CONSIDERED IN A "POLITICAL" AS WELL AS "COMMERCIAL SENSE", BUT GIVEN THE EXPLICIT VIEWS OF SOME OPEC COUNTRIES ON THIS POINT, SUCH A COMMITMENT IS PROBABLY NOT ATTAINABLE.

4. ON THE QUESTION OF SURPLUS FINANCIAL ASSETS, WE DO NOT EXPECT THE SAUDIS TO SEEK PREFERENTIAL TREATMENT IN CIEC. SOME RECOGNITION OF THE SAUDI "BURDEN" MAY BE NECESSARY, BUT THIS ISSUE SHOULD BE HANDLED BY THE FINANCE COMMISSION.

5. TRANSITION PERIOD. THE COMMUNIQUE SHOULD RECOGNIZE THAT THE WORLD IS PASSING THROUGH AN ENERGY TRANSITION PERIOD FROM PRIMARY RELIANCE ON OIL AND GAS TO ULTIMATE
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RELIANCE ON OTHER FORMS OF ENERGY, INCLUDING NON-DEPLETABLE ENERGY SOURCES. WE WILL RESIST EFFORTS TO QUANTIFY THE LENGTH OF THE TRANSITION PERIOD AND INSIST THAT REFERENCE BE MADE TO THE NEED FOR, AND THE ROLE OF ALL COUNTRIES IN ASSURING THAT, THE ENERGY TRANSITION PERIOD PROCEEDS IN A SMOOTH AND NON-DISRUPTIVE MANNER. (THE ISSUES OF ADEQUACY OF SUPPLY AND TRANSITION PERIOD COULD BE MERGED IN THE FINAL COMMUNIQUE.)

6. CONCEPT OF FUTURE ENERGY UNCERTAINTY. THE G-8 PREFERS EXPLICIT REFERENCE TO THE CONSIDERABLE UNCERTAINTY OF FUTURE ENERGY SUPPLY, DEMAND, RESERVES, AND TECHNOLOGICAL PROGRESS AND TO THE MUTUAL ADVANTAGE TO ALL COUNTRIES OF REDUCING THIS UNCERTAINTY IN ORDER TO FACILITATE THEIR OWN ENERGY CHOICES. WE WOULD ACCEPT IMPLICIT REFERENCE, IF NECESSARY, AS LONG AS THE CONCEPT IS SUFFICIENTLY OBVIOUS TO HELP ESTABLISH THE NEED FOR AN ON-GOING ENERGY DIALOGUE.

7. PRICE. THE G-8 SHOULD SEEK AS STRONG A REFERENCE AS POSSIBLE TO THE IMPACT OF OIL PRICES ON THE GLOBAL ECONOMY. BUT TO GET THIS, WE WILL NOT ACCEPT LANGUAGE THAT APPEARS TO ENDORSE INDEXATION OF OIL PRICES. IF NECESSARY, WE WILL SETTLE FOR GENERAL LANGUAGE ON PRICES, AND SEEK TO INCORPORATE THE OIL PRICE IMPACT CONCEPT INTO THE SECTIONS ON SUPPLY AND COOPERATION. ANOTHER

ACCEPTABLE FORMULATION COULD BE A STATEMENT BY EACH SIDE OF ITS POSITION ON PRICES ACCOMPANIED BY A DISCLAIMER FROM THE OTHER.

8. IF WE SUCCEED IN NEGOTIATING A COMMON TEXT ON THE IMPACT OF OIL PRICES ON THE GLOBAL ECONOMY AND ON PURCHASING POWER, WE COULD ACCEPT SOME CAREFULLY CONSTRUCTED LANGUAGE REFERRING TO THE COST OF ALTERNATIVE
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SOURCES, SINCE OTHER CONVENTIONAL FUELS ARE NOW COST-COMPETITIVE RELATIVE TO OIL PRICES (THOUGH IN SOME CASES THEIR USE IS SUBJECT TO STRUCTURAL CONSTRAINTS).

9. COOPERATION: IEI. THE G-8 IS PREPARED TO SUPPORT THE ESTABLISHMENT OF AN INTERNATIONAL ENERGY INSTITUTE ALONG THE LINES OF THE EARLIER US PROPOSAL IF THE DEVELOPING COUNTRIES ALSO SUPPORT IT. (THE EC DOES NOT YET HAVE A POSITION ON THE IEI.) THE IEI SHOULD NOT BE BROADENED INTO A GENERAL TECHNOLOGY TRANSFER MECHANISM. ALSO, IT WOULD NOT BE AN APPROPRIATE VEHICLE FOR AN ON-GOING ENERGY DIALOGUE, BUT THE ON-GOING DIALOGUE COULD MONITOR THE WORK OF THE IEI AND MAKE RECOMMENDATIONS TO IT.

10. COOPERATION: R&D. THE G-8 WANTS CIEC TO ENDORSE BILATERAL AND MULTILATERAL ENERGY R&D COOPERATION BETWEEN THE INDUSTRIALIZED COUNTRIES AND KEY LDCS, PARTICULARLY CERTAIN OPEC MEMBERS. WE SHOULD ADVISE THE G-19 THAT THE IEA WELCOMES PARTICIPATION BY NON-IEA MEMBERS IN SOME OF ITS R&D PROJECTS PROVIDED: A) THE GOVERNING BOARD APPROVES THE INDIVIDUAL COUNTRY'S PARTICIPATION, AND B) THE APPLICANT COUNTRY ACCEPTS THE SAME OBLIGATIONS AS IEA PARTICIPANTS IN THE PROJECT. (PARTICIPATION IN IEA R&D PROJECTS IS NOT TO BE ON AN AID BASIS; SPECIFICS ARE SPELLED OUT IN GUIDELINES DEVELOPED BY CERD, TO BE REVIEWED BY BURROWS GROUP ON APRIL 19 AND APPROVED BY GOVERNING BOARD IN ITS APRIL SESSION).

11. WE MAY NOT NEED EXPLICIT REFERENCE TO IEA R&D PROJECTS IN THE CIEC COMMUNIQUE, THOUGH WE MUST ENSURE

THAT THE IMPRESSION IS CONVEYED THAT THE CIEC ENDORSEMENT WILL LEAD TO CONCR TE R&D COOPERATION IN THE IEA AND ELSEWHERE.

12. COOPERATION: FINANCING LDC ENERGY DEVELOPMENT. THE
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G-8 GENERALLY AGREES ON THE DESIRABILITY OF INCREASING THE AVAILABILITY OF PUBLIC FUNDS FOR LDC ENERGY DEVELOPMENT. THE G-8 IS CONSIDERING PUTTING FORWARD A PROPOSAL THAT CIEC RECOMMEND THAT THE IBRD GIVE INCREASED

PRIORITY TO LENDING FOR LDC ENERGY DEVELOPMENT IN THE CONTEXT OF A LIKELY GENERAL CAPITAL INCREASE FOR THE BANK. WE WOULD ENVISION CIEC REMANDING THIS SUBJECT TO THE IBRD, OR PERHAPS MORE APPROPRIATELY TO THE DEVELOPMENT COMMITTEE, FOR DETAILED ELABORATION.

13. THE BANK'S FINANCIAL ROLE IN LDC ENERGY PROJECTS WOULD IN ANY CASE BE MODEST. BUT A SOMEWHAT MORE ACTIVE ROLE COULD ENABLE IT TO SERVE AS A CATALYST FOR PRIVATE CAPITAL, UPON WHICH LDC ENERGY DEVELOPMENT MUST PRIMARILY DEPEND. PUBLIC CAPITAL SHOULD NOT GO INTO ENERGY EXPLORATION BECAUSE OF THE HIGH RISK INVOLVED. YET ADVANCE UNDERSTANDING THAT THE BANK WOULD PARTICIPATE IN THE DEVELOPMENT PHASE OF A PROJECT IF RESERVES PROVED SUFFICIENTLY LARGE TO BE COMMERCIALY ATTRACTIVE WOULD LIKELY STIMULATE INCREASED PRIVATE INVESTMENT IN THE EXPLORATION PHASE. COMPANIES WOULD THEN HAVE GREATER CONFIDENCE THAT THEY WOULD ALSO BE ABLE TO PARTICIPATE IN THE DEVELOPMENT PHASE ALONG WITH THE BANK AND HOST GOVERNMENT AND EARN A SATISFACTORY RATE OF RETURN ON THEIR INVESTMENT.

14. ON-GOING ENERGY DIALOGUE. THE G-8 CONSIDERS A CIEC RECOMMENDATION FOR A CONTINUING ENERGY CONSULTATION TO BE AN ESSENTIAL ELEMENT IN THE FINAL CIEC PACKAGE. TACTICALLY, WE WILL KEEP DISCUSSION ON THIS SUBJECT IN GENERAL TERMS AND NOT PRESENT A NEW PROPOSAL ON THE SUBJECT, AT LEAST UNTIL THE SENIOR OFFICIALS MEETING. BUT IN DISCUSSING THE OTHER ISSUES OF SUPPLY, PRICE, AND COOPERATION, WE WILL INDICATE THE NEED FOR FUTURE CONSULTATIONS IN ORDER TO BUILD A STRONG CASE FOR THE
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ON-GOING DIALOGUE.

15. OTHER ISSUES. THE G-8 WILL NOT NEGOTIATE LAW OF THE SEA ISSUES IN CIEC, THOUGH WE COULD ACCEPT GENERAL AND BLAND COMMUNIQUE LANGUAGE MENTIONING LOS IF THE G-19 INSISTS. WE CANNOT GIVE ANY COMMITMENT ON ACCESS TO MARKETS FOR PETROLEUM PRODUCTS OTHER THAN TO RECOGNIZE THE PRODUCERS' DESIRE TO EXPAND EXPORTS OF PETROLEUM PRODUCTS AND TO EXPRESS WILLINGNESS TO KEEP THIS MATTER UNDER DISCUSSION IN THE CONTINUING ENERGY CONSULTATIONS.

16. ONCE I HAVE RECEIVED SAUDI CO-CHAIRMAN TAHER'S REACTION TO OUR SUGGESTIONS ON PROCEDURES AND TIMING FOR RESUMPTION OF THE WORK OF THE ENERGY COMMISSION, I WILL ADVISE YOU.
VANCE

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